6-2006

# Practicing CPA, vol. 30 no. 4, June 2006

American Institute of Certified Public Accountants (AICPA)

The Practicing CPA

The Newsletter of the AICPA Private Companies Practice Section

PCPS
AICPA Private Companies Practice Section

www.pcps.org

## Inside



June 2006

# The Man's Take

*Here's some guidance for small business owners on how much salary to take from their businesses.*

By Steven Goldstein

In our role as accountants and trusted advisors for our small business clients, one of the most frequent questions we hear is, "How much salary should I take from my business?" The answer isn't as simple as it seems. How much salary you take depends largely on your corporate entity structure.

Most limited liability companies (LLCs) and partnerships and all sole proprietorships are entities in which the net profits of the business flow directly to the owner of the business. This net profit is considered the business owner's salary, and is subject to all payroll taxes including FICA and Medicare tax. Although the net profit is considered salary, the business owner does not actually receive a W-2. The business owner must make quarterly estimated tax payments based on his or her projected share of the business income. We usually recommend setting aside approximately 35% to 40% of the salary for federal, state, and local estimated tax payments. Not paying the correct amounts could result in interest and penalties.

The S corporation owner is treated a little differently. Although considered an owner, he or she is also considered an employee for tax purposes. As an employee, the owner must receive a "reasonable" amount of salary and a W-2 at the end of the year, and not simply take all of his compensation in the form of a profit distribution. How much salary is reasonable is somewhat subjective.

The Internal Revenue Service (IRS) doesn't actually define what reasonable is; however, we have advised our clients to pay themselves a minimum salary of 30% to 40% of net profits. For example, if an S corporation has gross revenue of $150,000 and expenses of $50,000, the business owner should pay himself or herself a salary of at least $30,000 or $40,000, which is deducted against net profits. Our office has experienced an increase in S corporation audits in which the IRS is looking to see that a business owner is taking a reasonable amount of salary. The salary of the owner of a C corporation business is treated the same as that of any other employee: A W-2 is generated and all normal employment taxes are paid. As far as taxes are concerned, the owner's salary can be set at any level.

When you're deciding on your salary, pay attention to the requirements of your business entity, and balance business and personal considerations with tax considerations.

*Steven Goldstein, CPA, (sgoldstein@sgsco.com) is a partner with Soloway, Goldstein, Silverstein & Co. This article was originally published in* The New York Enterprise Report *(www.nyreport.com).*

# Bringing In More Revenue: The Role of Marketing Metrics

*Are your firm's marketing efforts producing the results you want? The only way to find out is to measure the results of your firm's marketing initiatives. A recent study challenges many professional services firms to establish measurements that truly assess the effectiveness of their programs.*

In recent years, CPA firms have increasingly taken a structured approach to marketing their services. Many firms have increased their client base and revenues by tapping resources inside and outside the firm to expand their marketing efforts. Even so, many CPA firms and other professional services firms need to do more to improve their marketplace effectiveness to bring in more revenues. This is a conclusion of a study, "Increasing Marketing Effectiveness at Professional Firms," recently published by Concord, Massachusetts-based Expertise Marketing LLC and Glen Ellyn, Illinois-based Larry Bodine Marketing. Suzanne Lowe, president of Expertise Marketing and a professional services consultant, has over the years conducted several studies of professional services firms. The focus of each study was based on an advisory group's request that certain issues be studied with the aim of helping firms market more effectively.

With this 2006 study, once again, Ms. Lowe and research partner Larry Bodine spotlight specific steps that will strengthen firms' efforts. The report focuses on the relationship between measurement and marketplace success. Firms need to ensure that their marketing and practice development efforts have been as effective as possible. To do so, they need to establish measurements that will tell them how well or poorly their marketing strategies are working.

To help professional services firms enhance their structure for improving marketing effectiveness, t[h]e report offers, along with commentary, "specific da[ta] about the highest ranked marketing and business development practices, the most effective measurement metrics, how firms monitor their effectiveness, how they perceive they're doing in measuring their marketing and business development initiatives, and how they overcome obstacles to measuring and improving their marketplace effectiveness." The survey respondents included 127 marketing directors and 91 managing partners and CEOs. In addition to 72 CPA firm participants, the respondents represented law and engineering consulting firms.

The study results suggest that professional services firms are more than willing to extend their resources needed to achieve marketplace effectiveness. The results also suggest that a lack of marketing metrics hampers these firms in doing so. Among the study's findings is that, although firms may be willing to spend money on marketing, they have spent "a paltry sum on measuring marketing—less than one-tenth of a percent—of an aggregate $94 billion in gross." In a telephone interview, Ms. Lowe suggested that firms need to demonstrate their commitment to achieving marketplace effectiveness by formally budgeting funds for measuring this effectiveness.

"Most firms talk a good game about being bett[er] than their competitors," Ms. Lowe said. "They may claim that they can exceed their competitors, but it's mostly hot air if they don't have a distinct process of measurement. The attitude of clients and prospective clients is 'if you can't prove to me that you're superior, don't tell me you are.' Because proof is important to win clients, firms need to have an evaluation process in place. For example, they could demonstrate the results of their emphasis on professional qualifications and development to assure clients of receiving superior services."

## Self-delusion?

"Extremely effective" was the self-reported choice that 20% of respondents made about their effectiveness against rivals. But the report's findings challenge professional services firms not to delude themselves that they are extremely effective against competitors just

*continued on next page*

***The Practicing CPA*** **(ISSN 0885-6931) June 2006, Volume 30, Number 4. Publication and editorial office: Harborside Financial Center, 201 Plaza Three, Jersey City, NJ 07311-3881.**  **Printing and mailing paid by PCPS/The AICPA Alliance for CPA firms. Opinions of the authors are their own and do not necessarily reflect policies of the AICPA.**

***Editor:*** William Moran.

because they have some form of measurement program in place. In fact, some measurement programs have no teeth in them. The study found a statistical correlation between the level of self-reported competitive effectiveness and the use of what the study authors called 'Client-Metrics' -- measures that are "obvious, tangible, objective, and identified with clients."

Along this line, the report concludes that "Benchmarking is not well-understood and is sparingly applied in professional services marketing. Benchmarking means setting a 'highest achievable level of measurement' and evaluating the firm's progress toward attaining it." The report contrasts benchmarking standards that are specific measurements and, therefore, would provide a meaningful assessment of progress with vague standards that lack tangible and objective measurements.

The contrast is demonstrated in the following list of measurements used by survey respondents:

*Examples of good benchmarking measurements*

- Average 9 proposals submitted per partner per year. Win 40% of all proposals. (Win 60% of those where we have a formal presentation of or meeting about the proposal.)
- We try to use the leader in our sector and our region in terms of market share as our benchmark. We try to replicate and perfect their strategies.
- Fifty percent increase in traffic from 2004.
- Want to win more than 30% of bids (industry average).
- 5% overall growth, with 25% margin at the manager level

*Examples of bad benchmarking measurements*

- Success in building a national brand will be our goal.
- We have no idea other than we hope the fees won are a multiple of the cost of the campaign.
- Maintain or improve turnover [revenue] rates from year to year.
- Higher revenues.
- Increase number of speaking engagements every year.

The full report discusses the importance of measuring marketplace effectiveness and how to measure real progress in the marketplace. To obtain the 80-page report, along with a 68-page case study, go to www.expertisemarketing.com/marketing_study_results.html.

# Facing the Financial Future

*The findings of two recent polls conducted for the AICPA by Harris Interactive are perhaps not surprising. Still the findings can help CPA firms better serve their clients and employees.*

A sharp contrast in how many Americans view their financial futures was revealed in two recent polls conducted by Harris Interactive for the AICPA. The polls offer CPAs insight into the thinking and behavior of clients and employees about how to prepare for a secure financial future. An issue that arises from both polls is awareness of what responsibility people must take for securing their financial future.

## Tough times ahead?

"Many Americans are headed for tough retirement years and may not be able to maintain their current standard of living," concludes one AICPA/Harris poll. "A distressing gap exists between the public's expectations for retirement and the reality," said Carl George, CPA, Chair of the AICPA's National CPA Financial Literacy Commission and CEO of Clifton Gunderson LLP. "Moreover," he adds, " too many Americans think they can rely on the Social Security and pension safety net to carry them through."

George thinks Americans "must realize they have to take responsibility today for planning and saving for their retirement. Otherwise, they may find themselves working far longer than they anticipated or at a lower standard of living."

Almost half of Americans (46%) expect to fund their retirement through Social Security and pensions, according to the poll, and an equal number expect that their retirement funds will last 10 to 20 years. Their expectations are unrealistic, says George. "If you plan for only 10 years, it's likely you will outlive your savings. The fact is, Americans are living longer, and they should actually plan for 20 to 30 years, not 10 to 20."

Americans are also underestimating how much they will need to fund their retirement. More than a third of respondents, 39%, believe $500,000 will be sufficient. George noted, however, that, spread over 30 years, that amount becomes $16,000 a year, an amount that probably will be inadequate to cover such expenses as uninsured medical costs or assisted living.

*continued on next page*

### Getting started

The poll also found that nearly one in four Americans (23%) hasn't yet begun to save for retirement. Almost half (47%) have started saving, but they admit they have a long way to go. Among Americans under age 35, 43% haven't begun to save.

### In the other corner

Another AICPA poll found that, in contrast to their elders, members of Generation X expect that Social Security and pensions may not be available when they're ready to retire. Consequently, they expect to fund their own retirements. (Generation X comprises 29 million adults born between 1964 and 1980).

"The message is getting through to Generation X consumers that they must take control of their own financial futures," said Carl George. "As a result, they intend to draw on personal savings and investments for retirement, unlike many of their baby boomer elders."

More than half of those surveyed (55%) will rely on savings and investments to carry them through retirement. In this group, 65% do not anticipate that Social Security will be a retirement option; 68% do not look forward to receiving a pension.

George advises Generation X members to "take advantage of 401K plans as soon as possible. The power of compounding interest can have a dramatic effect on 401(k) savings."

### Getting guidance

Clients and employees can get guidance on the basic steps for preparing for retirement at www.360FinancialLiteracy.org, the consumer Web site of the AICPA's 360 Degrees of Financial Literacy program. At that site, they'll find hundreds of free tools and resources for learning about financial matters, including retirement.

### Letters to the Editor

***The Practicing CPA* encourages readers to write letters on practice management and on published articles. Please remember to include your name and telephone and fax numbers. Send your letters by e-mail to pcpa@aicpa.org.**

# Women Make Strides in Becoming CPA Firm Leaders

*As everyone knows, staff recruitment and retention continue to be a top-of-mind issue for many CPA firms. Awareness of the findings of a recent AICPA study of workplace trends and practices can help both firms and employees to find effective ways to address some of the issues related to recruitment and retention.*

An AICPA study has produced two findings. First, women increasingly are attaining leadership positions in public accounting firms. Second, many more women as well as men are taking advantage of the alternative career paths offered by an increasing number of firms.

The study, *A Decade of Changes in the Accounti Profession: Workforce Trends and Human Capital Practices*, was conducted under the aegis of the AICPA's Work/Life and Women's Initiatives Executive Committee and explored a wide range of topics, including career advancement, turnover, and mentoring. More than 2,600 CPAs took part in the research, including those working in firms and in business and industry. This was the fourth such study commissioned by the executive committee since 1992.

Women now account for 19% of all firm partners, up from 12% a decade ago, the survey found. Even more significantly, female partners do not appear to be experiencing barriers to leadership positions in their firms, such as firm director of tax or audit or office managing partner.

### Alternative career paths

Many CPA firms are evolving beyond the "up or out" philosophy of the past. They recognize that an alternative career path often can help some individuals cope with children, aging parents, or other issues. The study reported, however, that only 38% of the firms surveyed offered an alternative career path that does not lead to partner, such as choosing to remain a senior manager or moving into a less client-service drive area like recruiting..

"Management of firms who demonstrate a passion

*continued on next page*

for achieving work/life effectiveness can illuminate the path for others," said Leslie A. Murphy, AICPA Chair. "Leadership needs to spend more time, effort, and resources at all levels to redefine what it is that people really need to thrive today."

"I consider it a real plus for the CPA profession that a growing number of firms have policies and programs in place which provide the flexibility that the young women and men of our profession expect," said Linda Bergen, Vice President, Corporate Accounting Policy, at Citigroup in New York, and Chair of the committee. "That 90% of women taking maternity leave are returning to work on either a full- or part-time basis is an example of the effectiveness of these policies. Clearly, a good work/life policy is good business."

## HR policies need adjusting

The report concluded that the accounting workforce is changing faster than human resources policies can adjust, noting significant gaps between what actually motivates people and bolsters retention and what firms think is effective in accomplishing these goals.

The report offered several recommendations for both firms and individual CPAs, including the following:

- Employers should more proactively provide guidance to both mentors and protégés on building a more effective relationship; professionals in turn should actively seek out mentors.

- Firms and companies must provide access to professional development opportunities in response to an increasingly diverse workforce.

- Women should more aggressively seek career opportunities and inform their supervisors about their aspirations.

- Work/life effectiveness must be perceived as a business strategy.

"The management of firms who demonstrate a passion for achieving work/life balance can illuminate the path for others," said Elizabeth Almer, Associate Professor of Accounting and Meadows Faculty Fellow at Portland State University in Portland, OR, and a member of the committee. "Leadership needs to spend more time, effort, and resources at all levels to redefine what it is that people really need to thrive today."

Other study findings reported by the committee included:

- Women are gravitating to smaller firms where they enjoy more advancement and where they represent 47% of the workforce, compared with 40% at larger firms.

- There is a gender gap in the desire for partnership. Among senior managers, only 41% of women as compared with 65% of men expressed a desire to become a partner.

- Female professionals are less likely to be aware of programs such as networking opportunities, leadership development programs, and practice development training.

- Men in the CPA profession are becoming as interested in and as affected by work/life policies as women. This is part of a wider, national trend that is becoming stronger.

- CPA firms that focus on the personal needs of their professional staff are seeing productivity gains because motivated employees reciprocate by nurturing the firm's valued client base.

Among CPAs in business and industry, the two most cited reasons for leaving public accounting were working conditions (schedules, hours, and assignments) and work/life issues. The full survey is posted on the Work/Life and Women's Initiatives Web site under Research at www.aicpa.org/worklife.

---

*For more information, contact Barbara Vigilante, Manager--Work/Life and Women's Initiatives: bvigilante@aicpa.org*

# Tightening NPOs' Controls and Procedures

*Firms may have clients that could benefit from the Nonprofit Business Analysis, or they could use the program as a model for providing similar services.*

Nonprofit organizations no matter how worthy their mission, sometimes falter or even fail entirely. Problems may arise because managers, executives, and board members have little or no understanding of finances or of what controls ought to be in place. Savvy business and finance professionals sometimes enter a nonprofit organization's ranks or agree to join its board. But nonprofits are often community-focused agencies whose board consists mostly of community members, most of whom have no background in business.

Many CPA firms, of course, assist nonprofit organization clients in addressing issues related to finance and management. The need for such services is demonstrated by the response to a program initiated by the Nonprofit Finance Fund (NFF). In 2002, NFF launched its Nonprofit Business Analysis Program (NBA), which is designed to promote a rigorous approach to nonprofit economics and management for nonprofit organizations that are contemplating or experiencing significant change.

NFF's general mission and role are as follows:

"NFF provides impartial analysis and flexible, frequently unsecured, financing that nonprofits typically can't get from other sources. Nationwide, NFF works with more than 170 funders, including financial institutions, foundations, and government agencies to invest directly and develop new ways of meeting the capital growth needs of the nonprofit sector."

The NBA program seems to fulfill a need. When the program was launched in 2002, two NBAs were sought by clients. The dramatic increase in demand to 143 NBAs in 2005 gives NFF confidence that this year the demand will increase to approximately 250 NBAs.

To give managers, executives, and board members the understanding they need, the NBA helps them come to grips with—

- Underlying financial trends and characteristics, such as balance sheet composition
- Financial planning and management tools, including monthly cash flow projections a internal monthly or quarterly budget vs. actual reports
- The likely impact of a proposed capital or program growth project
- The need for benchmarks for program productivity and financial performance

The NBA is "something like an MBA for nonprofit leaders who didn't go to business school programs," said Clara Miller, president and CEO of NFF.

## The NBA Process

Terry Saunders Lane, vice president for programs, Boston Foundation said that nonprofits may "face the toughest business environment out there today. Responsible organizations and funders recognize that nonprofits have to be on a solid financial footing to survive in the long run." Lane adds, "The NBA service . . . diagnoses any financial ills an organization might have," and it collaborates with it "to find the right prescription for future financial health."

An NBA usually takes between four and eight weeks. It starts with the nonprofit providing to NFF such information as audits, current budgets, and ye to-date financial reports. The first step is an analysis five years of financial history to identify areas of financial risk that could hinder the organization's progress or threaten its survival. The risks can include:

- Inability to operate at break-even or better
- Cash scarcity
- Unsustainably high-fixed costs
- The need to improve the proportion of earned vs. contributed income
- Underpriced services and unknown costs
- Lack of capacity to manage market uncertainty

After the initial analysis, NFF prepares a report that highlights important trends and existing or future financial threats and opportunities. NFF then meets with the organization's key staff and board members to discuss the report's preliminary findings. Based on this discussion, NFF reports the primary findings of the financial review, along with observations and recommendations that can help strengthen the financial stability of the organization. If requested, NFF staff will present the final report to the nonpr organization's full board.

PCPS
AICPA Private Companies Practice Section
Update

## New, Free Practice Management Forums

Are you aware of the brand-new PCPS Practice Management Forums series? A new benefit for PCPS members, these free, live, interactive online forums feature PowerPoint presentations from nationally known consultants to the profession who are experts in practice management. Forum topics focus on a variety of critical issues facing firms today. Scheduled for July through September are the following presentations:

- ***"Succession Planning for the One- to Five-Partner Firm" by Joel Sinkin, Senior Partner at Accounting Transition Advisors; July 14, 2-3:30 P.M. EST.***

Sinkin will discuss the following:
  - When to start the process
  - Choosing your successor
  - Alternative deal structure
  - Valuing the practice
  - Transitioning clients and staff

- ***"Strategic Planning" by Gary Boomer, CPA, CITP, CEO of Boomer Consulting; Aug. 9, 1-2 P.M. EST.***

Boomer will take participants through the firm planning cycle and provide an overview of the tools and process including:
  - The differences between shared-vision and shared-services firms
  - The steps in the planning process
  - How to quickly determine your firm's top dangers, opportunities and strengths
  - A sample one-page firm strategic plan

- ***"Developing Your Firm's Marketing Plan" by Jennifer Lee Wilson, Co-Founder, ConvergenceCoaching; Sept. 21, 2-3 P.M. EST.***

Wilson will discuss a practical, effective approach to developing your firm's marketing plan. In this forum, you will learn about the following:
  - Uncovering who should be involved in marketing planning inside your firm
  - Creating your marketing strategy
  - Marketing plan
  - What your marketing plan should address
  - Marketing planning tools

The series is only open to PCPS members. Before each forum, members will receive an e-mailed invitation to register. Only the first 100 registrants for each presentation will be able to participate. For more information, go to **www.aicpa.org/pcps**.

## Partner Training Forum

With succession planning among the top concerns for firms, PCPS and NorthStar Conferences have teamed up to bring practices the Emerging Partner Training Forum, running July 19-20, 2006, at the AICPA Boardroom in New York. PCPS and NorthStar have assembled some of the top consultants and trainers to the profession to help better equip the next generation for leadership roles. The objective of the forum is to give rising stars and new partners/owners, from firms of all sizes, the opportunity to learn what specifically makes a partner succeed. Topics will include:

- Business development (new business, being consultative, closing the deal)
- Client retention (best practices, being a trusted advisor)
- Effective communications skills, (listening to the client, asking the right questions)

Seating is limited to 60 attendees to allow for heavy group participation. To register or get more information, go to **www.northstar-conferences.com/conferences.asp?code=67EPT01&pcode=EB01 or call 1-866-265-1975.**

## National MAP Survey Launches This Month

One of the most recognized and used services from PCPS launches again later this month. The 2006 PCPS/TSCPA National MAP Survey starts in late June and runs until September 1, 2006, with results for responding firms expected in mid October. A major addition to this year's survey reports will be a table of

Membership in PCPS is more valuable than ever. Join now for $35 per CPA, up to a maximum of $700, by visiting ***pcps.aicpa.org/Memberships/Join+PCPS.htm*** or by going to ***www.aicpa.org/pcps*** and clicking the "Join PCPS" button on the home page. If you are already a member but haven't activated your access to the online Firm Practice Center or haven't shared your unique activation link (sent to you this past summer) with others in your firm, now is the time to do so. Contact the AICPA Service Center at 1-888-777-7077, Option 3, or at ***service@aicpa.org*** for assistance or for more information.

*continued on next page*

*continued from page 7*

contents, which will enable users to quickly locate information. Firms use the valuable benchmarking information from this biannual study to see how they compare with peers in a wide array of practice management areas. Many have joined PCPS specifically to receive a free customized results report. For a look at 2004's results, PCPS members can check out **pcps.aicpa.org/Resources/National+MAP+Survey**, which also includes extracts on staffing issues, with data broken down by firm size. Watch your inbox for your invitation to participate, or visit **www.aicpa.org/pcps** for more information.

## Upcoming Staffing Forum

With staffing consistently the top issue for firms, the AICPA and The Advisory Board will present the Forum on Recruiting and Retaining: The Ongoing Battle for Talent, a July 17-18, 2006, event in Chicago. This forum is the only conference in the industry focusing solely on cultivating the talent pool for practices.

The conference will feature real-world strategies from managing partners and firm human resources directors, along with high-level discussions from nationally known expert Rebecca Ryan and psychologist Morrie Schechtman. Some of the topics at the event will include, "The Top Retention Strategies in the Industry," "Employing, Elevating & Empowering Young Talent," "Creating a Human Resource Strategy," and "Tapping into the Female Workforce." New this year are two separate breakout tracks for managing partners and human resources professionals, creating even more opportunity to learn and shape a firm's culture.

The forum is the second annual collaborative effort between the AICPA and The Advisory Board centered around staffing issues and is presented in cooperation with the Illinois CPA Society. PCPS members get a $100 discount off the AICPA member rate (a $300 discount off the AICPA nonmember rate). For more information, visit **www.cpa2biz.com/CS2000/Products/CPA2BIZ/Conferences/AICPA+Advisory+Board+Forum+on+Recruiting+and+Retaining+The+On+Going+Battle+for+Talent.htm.**

**PCPS/The AICPA Alliance for CPA Firms**
*Harborside Financial Center*
*Plaza Three*
*y City, N.J. 07311-3881*
*(201) 938-3005*
*Fax (201) 938-3404*